



FILED

05-18-07
11:40 AM

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company
(U 210 W), for an Interest Rate of 8.33% for
Allowance for Funds Used During Construction
(AFUDC) for its San Clemente Dam Memorandum.

A.07-02-023
(Filed February 20, 2007)

**SCOPING MEMO AND RULING OF ASSIGNED COMMISSIONER AND
ADMINISTRATIVE LAW JUDGE DETERMINING THE SCOPE, SCHEDULE,
AND NEED FOR HEARING IN THIS PROCEEDING**

This ruling determines this proceeding's scope, schedule, and need for hearing in accordance with Rule 7.3 the Commission's Rules of Practice and Procedure (Rules).

Background

In Ordering Paragraph 19 of Decision (D.) 06-11-050, the Commission directed California-American Water Company (Cal-Am) to remove the San Clemente Dam retrofit project costs from rate base and place the amount in a memorandum account for later reasonableness review. The Commission authorized the account to accrue interest at the 90-day commercial paper rate, but allowed Cal-Am the opportunity to request, by subsequent application, a different interest rate:

The San Clemente Dam retrofit project costs shall be removed from rate base and placed in a memorandum account for later reasonableness review. The account shall accrue AFUDC at the 90-day commercial paper rate, subject to true-up, until the

Commission completes a review of the appropriate AFUDC rate for this project. Cal-Am is directed to file within 60 days an application addressing the AFUDC methodology that should be applied to the San Clemente Dam retrofit memorandum account.

On February 20, 2007, Cal-Am filed and served this application seeking Commission approval of higher interest rate, 8.33%, which is its currently authorized cost of capital. In addition, Cal-Am asked that the memorandum account balance, with interest, be moved “into rate base when the Project becomes more certain.” Cal-Am offered three alternatives for the “more certain” milestone: certification of the environmental work, obtaining final permits, or finalization of construction contracts.

The Division of Ratepayer Advocates (DRA) and the Monterey Peninsula Water Management District (MPWMD) protested this application contending that Cal-Am had not justified an interest rate higher than the 90-day commercial paper rate, and that the request for rate base treatment was beyond the scope of the application authorized by Ordering Paragraph 19. On April 16, 2007, DRA and MPWMD filed a joint motion to strike all Cal-Am testimony referencing the proposal to move project costs to rate base.

On May 11, 2007, the assigned Administrative Law Judge (ALJ) convened a prehearing conference. The applicant provided a status report on the environmental review process, and stated that the final environmental document was expected in June 2007. The applicant indicated its intent to rely on its presentation in A.05-02-012, which was prepared in late 2004, in support of its request to include the cost of construction work in progress in rate base. The applicant also did not have a specific proposal for an appropriate milestone at which to include the costs in rate base.

The ALJ and the parties addressed the need for evidentiary hearings. No party articulated a disputed issue of material fact requiring evidentiary hearings, but all agreed that numerous legal and policy issues were in dispute among the parties. A schedule for discovery and briefs, with supporting factual declarations was discussed, as well as a contingency plan for a second prehearing conference, should factual disputes emerge.

Need for Evidentiary Hearings

At this time, there are no identified issues of material facts in dispute among the parties and, consequently, scheduling evidentiary hearings is not necessary. The parties will submit briefs addressing legal and policy issues. Any required factual assertions shall be supported by a sworn declaration attached to the brief, and any resulting discovery requests shall be answered within five days. Should factual issues emerge, a second prehearing conference shall be set to adopt a revised procedural schedule.

Scope of the Proceeding

The scope of this proceeding shall be to determine the AFUDC methodology that should be applied to the San Clemente Dam retrofit memorandum account, as directed by the Commission in D.06-11-050.

The scope will not include placing construction work in progress in rate base because the applicant has not yet completed its decision-making process on the appropriate alternative to pursue, and the proposed supporting data is out-of-date.

Revised Caption

The caption for this proceeding shall be revised to conform to the scope as set out above. All documents filed by the parties shall use the revised caption,

which appears on this ruling. The Commission staff shall make any necessary modifications to the Commission's records.

Procedural Schedule

The following schedule is adopted:

Event	Date
Discovery Completed	June 22, 2007
Applicant's Opening Brief	August 13, 2007
Protestants' Reply Brief	September 7, 2007
Applicant's Closing Brief	September 28, 2007

Principal Hearing Officer

The assigned ALJ, Maribeth A. Bushey, will act as the principal hearing officer in this proceeding.

Ex Parte Communications

This matter is designated as "ratesetting" as defined in Rule 5(c). Therefore, all ex parte communications must comply with Rules 7(c) and 7.1.

IT IS SO RULED.

Dated May 18, 2007, at San Francisco, California.

/s/ MICHAEL R. PEEVEY
Michael R. Peevey
Assigned Commissioner

/s/ MARIBETH A. BUSHEY
Maribeth A. Bushey
Administrative Law Judge

INFORMATION REGARDING SERVICE

I have provided notification of filing to the electronic mail addresses on the attached service list.

Upon confirmation of this document's acceptance for filing, I will cause a Notice of Availability of the filed document to be served upon the service list to this proceeding by U.S. mail. The service list I will use to serve the Notice of Availability of the filed document is current as of today's date.

Dated May 18, 2007, at San Francisco, California.

/s/ ELIZABETH LEWIS

Elizabeth Lewis